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INFO RUEHBJ/AMEMBASSY BEIJING 3035
RUEHKO/AMEMBASSY TOKYO 3173
RUEHMO/AMEMBASSY MOSCOW 8223
RUEHSH/AMCONSUL SHENYANG 3438
RHEHNSC/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//OSD/ISA/EAP//
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC

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SENSITIVE
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NSC FOR WILDER AND TONG
STATE FOR EAP, NP, EAP/K AND EEB/IFD/OMA
PASS USTR FOR CUTLER AND AUGEROT
TREASURY FOR A/ISA/POGGI, ITI/CHRISTOPOULOS AND ITT/CHANG

E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [PREL](#) [KS](#) [KN](#)
SUBJECT: DPRK ECONOMY SHRINKS IN 2006: BANK OF KOREA
PERSPECTIVES

SUMMARY

1. (SBU) Relying on official but suspect DPRK data, the Bank of Korea's (BOK) report on the DPRK economy is noteworthy for spotlighting 2006 as a recession year, ending a seven-year growth streak. The DPRK economy shrank 1.1 percent in real terms -- compared with 3.8-percent growth reported for 2005. The BOK attributed this poor performance to international isolation stemming from the DPRK's pursuit of its nuclear weapons program, widespread energy shortages coupled with retarded infrastructural development, and lower agricultural output due to unfavorable weather conditions. Key sectors such as construction and agriculture led the decline, while manufacturing and mining posted negligible growth. Tourism dropped sharply due to security and political concerns in the wake of the North's nuclear test in the second half of 2006, limiting the DPRK's access to hard currency. End summary.

DPRK Real Economic Growth

(Unit: percent)

	,97	,98	,99	,00	,01	,02	,03	,04	,05	06
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	-6.3	-1.1	6.2	1.3	3.7	1.2	1.8	2.2	3.8	-1.1

2. (SBU) In 2006, North Korea's agriculture and fisheries output fell 2.6 percent from a year earlier, chiefly due to unfavorable weather conditions. Manufacturing as a whole stagnated, but mining output grew slightly. Electric power, gas, and water production rose 2.7 percent, down from a 4.4-percent increase in 2005, mainly because of weaker hydroelectric output. Tourist visits to Mt. Geumgang and Pyongyang declined from 366,000 in 2005 to 265,000 in 2006. In the wake of this tourism drop, food and lodging industry income shrank 2.6 percent. The BOK linked this drop in the DPRK's hard-currency earnings to international concerns over its nuclear test in the second half of 2006.

3. (SBU) DPRK economic growth by Sector:

Economic Growth by Industry

(Unit: Percent)

	North Korea		South Korea	
	,05	,06	,05	,06
Agriculture & Fisheries	5.0	-2.6	0.7	-2.6
Mining & Industry	4.4	0.9	7.0	8.3
Mining	3.5	1.9	-1.7	2.7
Manufacturing	4.9	0.4	7.1	8.4
(Light Industry)	(3.9)	(-0.6)	(1.8)	(1.1)
(Heavy Ind. & Chemical)	(5.4)	(1.1)	(8.1)	(9.7)
Electricity, Gas & Water Supply	4.4	2.7	7.8	3.5
Construction	6.1	-11.5	-0.1	-0.1
Services	1.3	1.1	3.4	4.2
(Government)	(0.6)	(0.8)	(2.3)	(2.9)
(Others)	(2.9)	(1.8)	(3.6)	(4.4)
GDP	3.8	-1.1	4.2	5.0

14. (SBU) In 2006, North Korea's primary industries (agriculture, fishing, and construction) shrank slightly as a share of total output, while services, mining, and industry expanded, reflecting longer-term structural changes to North Korea's economy. For the past several years, agriculture and fisheries have accounted for a declining portion of total

economic activity (30.4 percent in 2001 vs. 23.3 percent in 2006,) while services and industry have grown steadily, albeit marginally, in importance. Food production made up a significantly large proportion of the DPRK's GDP, while non-governmental services, a major component of the South Korean economy, contributed fractionally to the North's GDP.

15. (SBU) Sectoral Contributions to North Korea's GDP

(Unit: Percent based on Nominal Prices)

	North Korea		South Korea	
	,05	,06	,05	,06
Agriculture & Fisheries	25.0	23.3	3.4	3.2
Mining & Industry	28.9	29.6	28.7	28.2
Mining	9.9	10.2	0.4	0.4
Manufacturing	19.0	19.5	28.4	27.8
(Light Industry)	(6.7)	(6.7)	(5.1)	(4.9)
(Heavy Ind. & Chemical)	(12.4)	(12.8)	(23.2)	(22.9)
Electricity, Gas & Water Supply	4.3	4.5	2.3	2.3
Construction	9.6	9.0	9.2	9.1
Services	32.2	33.6	56.3	57.2
(Government)	(22.6)	(23.7)	(10.1)	(10.4)
(Others)	(9.6)	(9.8)	(46.2)	(46.7)
GDP	100.0	100.0	100.0	100.0

DPRK GDP by Sector

Unit: Real prices based on 2000 index,
in South Korean Billion Won)

	Real Prices		Nominal Prices	
	,05	,06	,05	,06
Agriculture & Fisheries	7,118.6	6,931.2	6,186.5	5,676.4
Mining/Industry	5,289.4	5,336.4	7,156.3	7,216.3
(Mining)	1,616.2	1,646.8	2,456.3	2,474.9
(Manufac.)	3,673.2	3,689.6	4,700.0	4,741.4
Electric, Gas & Water Supply	1,022.2	1,049.8	1,057.4	1,101.4
Construction Services	1,688.2	1,494.2	2,368.6	2,182.6
(Government)	6,333.9	6,404.5	7,966.1	8,181.2
(Others)	4,247.3	4,281.4	5,599.2	5,784.1
Whole, Retail, Food & Lodging	2,086.6	2,123.2	2,366.9	2,397.1
Transportation & Communic.	105.9	103.1	129.6	122.7
Finance, Insurance & Real Estate	597.2	637.4	664.1	691.7
Other Services	21,380.5	1,390.2	1,569.4	1,579.6
GDP	3.0	2.5	3.8	3.1
	21,452.3	21,216.1	24,734.8	24,357.9

Economic Gap Widens Further between the Two Koreas

¶6. (SBU) The economic differences between South and North Korea deepened further in 2006. North Korea's nominal gross national income (GNI - including total output and

foreign-earned income) was estimated at USD 25.6 billion, while South Korea's GNI totaled USD 887.3 billion-- 35 times larger than that of North Korea.

¶7. (SBU) North Korea's external trade, excluding inter-Korean trade, totaled USD 3 billion, down 0.2 percent from 2005. However, inter-Korean trade rose 27.8 percent in 2006 to reach USD 1.3 billion, based on a 53-percent surge in the North's exports to South Korea (mainly KIC-made products). As a result, the DPRK's chronic trade deficit with South Korea shrank modestly. The North's overall foreign trade deficit continued its perennial climb, approaching USD 1.5 billion and spotlighting its need to earn foreign exchange. In contrast, South Korea's foreign trade totaled USD 635 billion, up 16.3 percent from 2005. While the value of inter-Korean trade flows is still modest relative to the South's overall trade, inter-Korean trade has posted impressive growth from 2001 through 2006, with nominal trade more than tripling during that five-year period.

¶8. (SBU) Economic Comparisons between the two Koreas:

2006 North) South Economic Comparison				
	Unit	North(A)	South (B)	B/A
Population	1,000	23,079	48,297	2.1
Economic Growth	Percent	-1.1	5.0	-
Nominal GNI	USD Billion	2.56	887.3	34.7
GNI per Capita	USD	1,108	18,372	16.6
External Trade				
Overall Trade	USD Billion	3	634.9	211.9
(Exports)	&	0.95	325.5	343.8
(Imports)	&	2.05	309.4	151.0

Exchange Rate	DPRK Won/USD	141	955.51	-
Energy Industry				
(Coal Production)	10K Ton	2,468	280	0.11
(Power Generation Capacity)	10K Kw	782	6,551	8.4
(Power Generation Output)	100 Million kWh	225	3,812	16.9
(Crude Oil Imports)	10K bbl	384	88,843	231.4
Agriculture & Fishery				
Output				
Grain (Rice)	10K ton &	448.3	530	1.2
		189.4	468	2.5
Fishery	&	92.3	303.2	3.3
Mineral Production				
Iron Ore	10K ton	504.1	22.7	0.05
Non-ferrous Metal	&	8.6	187.7	21.8
Industrial Goods				
Output				
Auto	10K cars	0.44	384	872.8
Crude Steel	10K ton	118.1	4,843.3	41.0
Cement	&	615.5	4,920.9	8.0
Fertilizer	&	45.4	318.3	7.0
Synthetic Fiber	&	2.9	145.7	50.2
Infrastructure				
Rail Length	Km	5,235	3,392	0.6
Road Length	Km	25,544	102,061	4.0
Unloading Capacity	10Kton	3,700	69,213	18.7
Shipping tonage	&	90.4	1,180.2	13.1

Source: Bank of Korea (BOK)

Note A: DPRK exchange rate denotes North Korea,s official exchange rate against the US dollar.

COMMENT

19. (SBU) The BOK report is notable for highlighting the first DPRK economic recession since 1998. Estimating DPRK economic performance since 1991, the BOK collects DPRK data from the South's National Intelligence Service and various research institutes. BOK analysts deem DPRK data to be suspect, but make their best-guess estimates drawing on South Korean market prices, value-added ratios, and exchange rates. They were unavailable for comment on this report, but post will be following up with them in the coming weeks. End comment.

VERSHBOW